

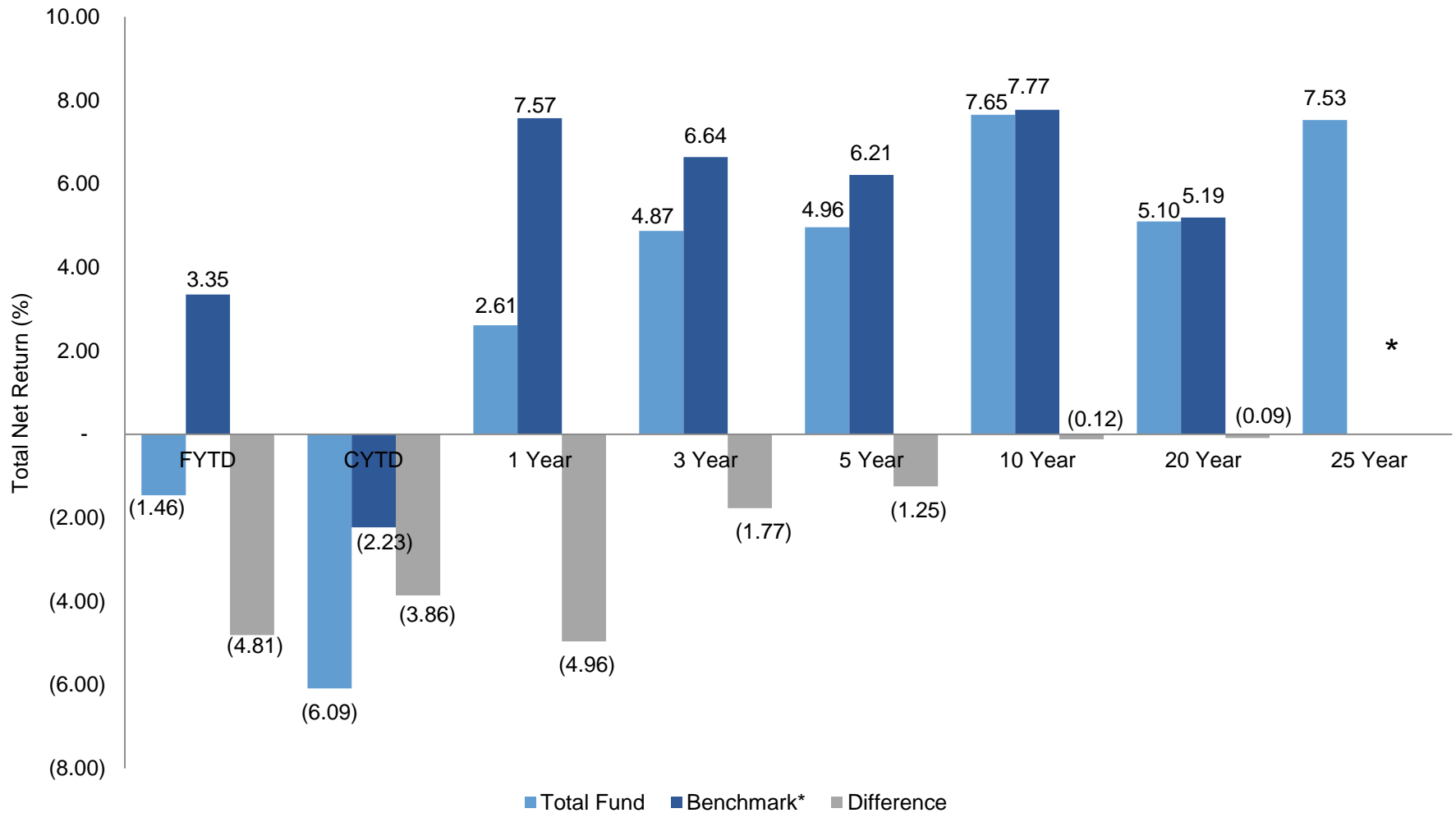
NJ DIVISION OF INVESTMENT

Director's Report

State Investment Council
July 22, 2020

“The mission of the New Jersey Division of Investment is to achieve the best possible return at an acceptable level of risk using the highest fiduciary standards.”

Pension Fund Net Returns⁽¹⁾ for Periods Ending May 31, 2020



(1) Returns are preliminary, unaudited, net of all fees, and exclude Police and Fire Mortgage Program. Certain asset class returns, including private equity, real assets, real estate, and private credit do not include up-to-date valuations and benchmark returns for these asset classes are calculated on a lagged basis. This results in performance comparisons that may be less meaningful.

* Benchmark return not available for 25-Year period

Capital Markets Update

	Fiscal Year 2020	Calendar YTD thru 6/30/20	Fiscal YTD thru 2/19/20	2/19/20 thru 3/23/20	3/23/20 thru 6/30/20	Three Years (Annualized)	Five Years (Annualized)
Global Equity Index							
MSCI ALL Country World Index	2.11	-6.25	11.90	-33.64	37.50	6.13	6.45
US Equity Indices							
Russell 3000	6.52	-3.48	15.99	-34.96	41.19	10.02	10.01
Russell 1000	7.47	-2.81	16.50	-34.58	41.00	10.62	10.45
Russell 2000	-6.65	-12.99	8.96	-40.67	44.39	1.98	4.26
Russell Growth	21.94	8.98	21.94	-31.89	46.82	18.19	15.21
Russell Value	-9.44	-16.75	9.86	-38.48	33.98	1.39	4.39
Non-US Equity Indices							
MSCI EAFE	-5.13	-11.34	6.16	-32.68	32.74	0.81	2.05
MSCI Emerging Markets	-3.39	-9.78	6.10	-31.17	32.28	1.90	2.86
Fixed Income & Credit Indices							
Bloomberg Barclays U.S. Aggregate	8.74	6.14	4.50	-0.94	5.05	5.32	4.30
Bloomberg Barclays U.S. Treasury	10.45	8.71	3.92	5.40	0.84	5.57	4.07
Bloomberg Barclays U.S. Credit	9.07	4.82	6.82	-11.12	14.89	6.13	5.54
Bloomberg Barclays U.S. Credit (A or better)	9.92	6.46	5.80	-7.08	11.81	6.08	5.32
Bloomberg Barclays U.S. Credit (BBB)	8.19	3.02	8.00	-15.79	18.96	6.21	5.81
Bloomberg Barclays U.S. High Yield	0.03	-3.80	5.27	-20.76	19.92	3.33	4.78
S&P/LSTA Leveraged Loan Index	-1.99	-4.61	3.46	-20.62	19.35	2.07	2.89
Wells Fargo BDC Index	-22.39	-27.74	10.04	-56.97	63.90	-6.23	0.22
Real Estate Index							
Bloomberg U.S. REIT Index	-7.36	-13.71	13.43	-41.21	38.91	2.88	6.46
Real Assets & Commodities Indices							
Bloomberg Commodities Index	-18.43	-19.67	-3.87	-19.02	4.79	-7.68	-8.74
Bloomberg Energy Subindex	-45.74	-46.29	-10.39	-42.92	6.08	-14.41	-18.92
Alerian MLP Index	-41.43	-35.71	-14.64	-59.37	68.88	-16.77	-12.84

Asset Allocation and Net Returns by Asset Class (May 31, 2020)

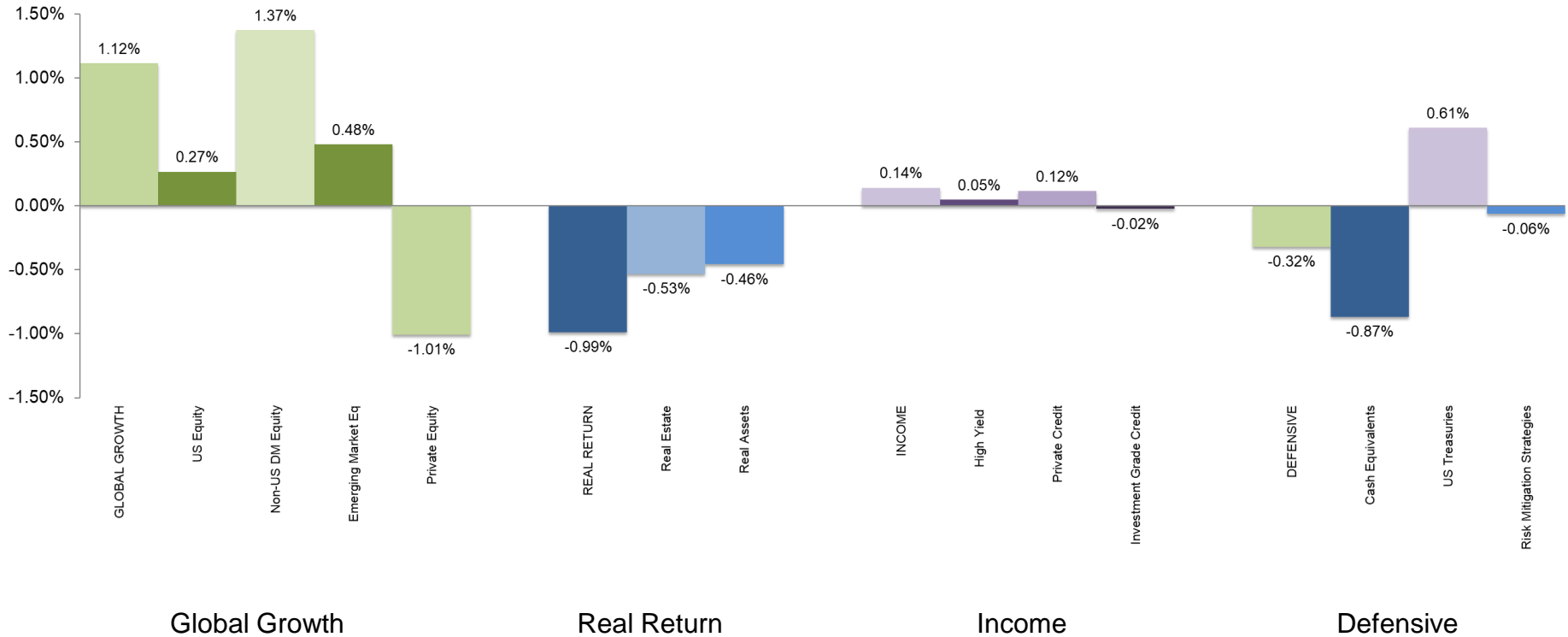
Asset Class	ASSET ALLOCATION				PERFORMANCE (for periods ending May 31, 2020) ⁽¹⁾							
	As of May 31, 2020				FYTD		Calendar YTD		Trailing Twelve Months		Trailing Three Years	
	Mkt Value	Actual (%)	Target (%)	Difference	NJ	Bench	NJ	Bench	NJ	Bench	NJ	Bench
GLOBAL GROWTH												
US Equity	20,551	27.75%	28.00%	-0.25%	3.55%	4.56%	-5.61%	-5.58%	10.94%	11.98%	8.37%	9.66%
Non-US Dev Market Eq	8,868	11.98%	12.50%	-0.52%	-7.12%	-8.59%	-13.42%	-14.41%	-1.83%	-3.19%	0.59%	-0.26%
Emerging Market Eq	4,579	6.18%	6.50%	-0.32%	-11.02%	-9.71%	-17.02%	-15.77%	-5.58%	-4.02%	-1.11%	-0.03%
Private Equity	8,356	11.28%	12.00%	-0.72%	-1.88%	10.02%	-1.49%	5.43%	2.03%	15.35%	10.04%	15.83%
Equity-Oriented HF's	48	0.06%	0.00%	0.06%	-11.59%	-7.07%	-3.87%	-11.84%	-13.04%	-10.09%	-3.95%	-1.82%
TOTAL GLOBAL GROWTH	42,403	57.26%	59.00%	-1.74%	-1.48%	2.07%	-7.93%	-5.61%	4.59%	8.48%	5.80%	7.84%
REAL RETURN												
Real Assets	1,601	2.16%	2.50%	-0.34%	-23.66%	-3.02%	-22.32%	-0.45%	-24.30%	-1.06%	-5.20%	1.97%
Real Estate	4,758	6.43%	7.50%	-1.07%	-4.78%	3.15%	-8.65%	1.27%	-2.36%	4.39%	6.17%	6.13%
TOTAL REAL RETURN	6,359	8.59%	10.00%	-1.41%	-10.42%	1.46%	-12.53%	0.84%	-9.16%	2.96%	2.71%	5.02%
INCOME												
Investment Grade Credit	6,765	9.14%	10.00%	-0.86%	9.04%	8.47%	5.76%	5.06%	11.27%	10.53%	5.96%	5.70%
High Yield	1,026	1.39%	2.00%	-0.61%	-1.82%	-0.95%	-5.67%	-4.74%	0.41%	1.31%	2.46%	3.04%
Private Credit	5,407	7.30%	6.00%	1.30%	-9.15%	-2.06%	-9.84%	-6.53%	-7.87%	-3.14%	2.35%	2.88%
TOTAL INCOME	13,197	17.82%	18.00%	-0.18%	-0.04%	3.51%	-2.04%	0.22%	1.61%	5.37%	3.89%	4.65%
DEFENSIVE												
Cash Equivalents	5,676	7.66%	5.00%	2.66%	1.88%	1.62%	0.56%	0.58%	2.17%	1.84%	2.29%	1.79%
U.S. Government	3,525	4.76%	5.00%	-0.24%	10.56%	10.34%	8.83%	8.61%	11.47%	11.36%	5.23%	5.48%
Risk Mitigation Strategies	2,411	3.26%	3.00%	0.26%	0.28%	4.46%	-1.33%	1.83%	1.63%	4.94%	3.19%	4.88%
TOTAL DEFENSIVE	11,612	15.68%	13.00%	2.68%	4.05%	5.35%	2.56%	3.93%	4.82%	5.84%	3.39%	3.33%
OTHER												
OPPORTUNISTIC PE	463	0.63%			4.14%	10.02%	3.35%	5.43%	6.07%	15.35%	4.08%	15.83%
OTHER	18	0.02%										
TOTAL FUND ⁽²⁾	74,053	100.00%			-1.46%	3.35%	-6.09%	-2.23%	2.61%	7.57%	4.87%	6.64%

(1) Returns are preliminary, unaudited, and net of all fees

(2) Total Pension Fund excludes Police and Fire Mortgage Program

Notes: Sum of components may not equal totals due to rounding. Certain asset class returns, including private equity, real assets, real estate, and private credit do not include up-to-date valuations and benchmark returns for these asset classes are presented on a lagged basis. This results in performance comparisons that may be less meaningful.

Pension Fund Update: Change in Sector Allocation from April 30 – June 30, 2020



Strong public equity returns led to an increased allocation to Global Growth

Real Estate Portfolio Review

• **Background**

- Real Estate investments were initiated with the Alternative Investment Program in 2006, near the peak of the prior cycle.
- Fewer commitments were made during 2009-2012, limiting the Pension Fund's upside to benefit from some of the best performing vintage years.
- In 2013, the Division sold opportunistic and value-add funds that were considered to be non-strategic. Proceeds were reinvested in public REITs to maintain sector allocation. REITs comprise 20% of the current portfolio.
- The Division further restructured the portfolio by redeeming from open-end core funds to increase investments in higher yielding opportunistic and value-add funds.
- During earlier periods, certain large commitments were made to targeted funds which benefited from more favorable fee arrangements, but also resulted in a more concentrated portfolio.

• **Benchmark Considerations**

- There is variance between the Division's real estate portfolio and the NCREIF Open-End Diversified Core Equity (ODCE) index.
- The Division's portfolio contains only 27% core funds.
- Non-US assets represent approximately 35% of the Division's portfolio while ODCE funds are limited to 5% non-US.
- ODCE funds are primarily comprised of 4 main property types (office, industrial, retail, and multifamily); in contrast, approximately 1/3 of the Division's portfolio is comprised of other property types.

• **The impact of the COVID-19 crisis**

- The Real Estate portfolio remained net cash positive with distributions outpacing contributions for Q1 and Q2 2020.
- In the wake of the COVID-19 crisis several subsectors of the Pension Fund's real estate portfolio are experiencing some stress.
- The main drivers of value detractor are investments in retail and hotel properties. While the Division's portfolio is underweight retail, it is overweight the hotel sector.
- Overall portfolio detractor was concentrated in 10 of the Division's 55 investments.
- Approximately half of the active funds had write-downs of less than 10%.
- 11 funds generated no valuation movement or slight increases.

• **Next steps for the Real Estate portfolio**

- Closely monitoring the existing portfolio, particularly hotel and retail assets.
- Continuing to diversify with assets that focus on long-term demographic and secular trends and reduce correlation with economic cycles; subsectors of interest include data centers, life science/research, medical office, industrial, and multifamily.
- Pursuing Separate Accounts where possible to obtain more favorable economic terms and governance.
- Pursuing opportunities that may capitalize on post-COVID market distress and dislocation.